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# Office of the Legislative Auditor

State of Montana

Report to the Legislature

May 1992

# Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1991

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# University of Montana

This report contains recommendations to assist the university in improving its operations. The major items addressed in the report include:

- Charging employee leave benefits to federal projects.
- Accounting for equipment purchased for federal projects.
- Accounting for operating and equipment expenditures used to match federal projects.
- Ensuring gifts and donations to the university are recorded on the university's accounting records.
- Complying with the requirements of the state's general appropriations act.

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Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1989 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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# Office of the Legislative Auditor

**Financial-Compliance Audit**
**For the Two Fiscal Years Ended June 30, 1991**

# University of Montana

Members of the audit staff involved in this audit were Brenda Bokovoy, Laurie Evans, Frieda Houser, Tori Hunthausen, Maureen McHugh, Victoria Murphy, Charles Nemec, Lorry Parriman, and Julie Quist.

STATE OF MONTANA

# Office of the Legislative Auditor

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May 1992

The Legislative Audit Committee
of the Montana State Legislature:

This report is the result of our audit of the University of Montana for fiscal years 1989-90 and 1990-91. The scope of this audit excludes the Dillon campus, which is separately audited. The report contains recommendations related to complying with federal regulations, ensuring university donations are recorded on the university's accounting records, and complying with the restrictive language in the general appropriations act. The university system responses to the recommendations are at the end of the report.

We wish to express our appreciation to the University of Montana president and staff for their cooperation and assistance.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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## Appointed and Administrative Officials

### Board of Regents of Higher Education

| | | Term Expires |
|---|---|---|
| Stan Stephens, Governor* | | 1992 |
| Nancy Keenan, Superintendent of Public Instruction* | | 1992 |
| Dr. John Hutchinson, Commissioner of Higher Education* | | |
| William L. Mathers, Chairman | Miles City | 1994 |
| Tom Topel | Billings | 1993 |
| Cordell Johnson | Helena | 1996 |
| Kermit R. Schwanke | Missoula | 1997 |
| Paul Boylan | Bozeman | 1998 |
| Jim Kaze | Havre | 1999 |
| Kathey S. Rebish, Student Regent | Missoula | 1992 |

*ex officio member

### Commissioner of Higher Education

| | |
|---|---|
| Dr. John Hutchinson | Commissioner |
| John H. Noble, Jr. | Deputy Commissioner for Management & Fiscal Affairs (through December 1991) |
| Rod Sundsted | Acting (effective January 1992) |
| Laurie Neils | Director of Budget and Accounting |

### University of Montana Administration

| | |
|---|---|
| George M. Dennison | President |
| Donald Habbe | Provost/Vice President for Academic Affairs (retired December 1991) |
| Robert Kindrick | (began January 1992) |
| James Todd | Vice President for Administration & Finance |
| Raymond C. Murray | Associate Provost for Research & Economic Development/Dean Graduate School |
| Sheila Stearns | Vice President for University Relations |
| Joan Newman | Legal Counsel |
| Barbara Hollmann | Dean of Students |
| Sylvia Weisenburger | Director of Budget |
| Rosi Keller | Controller |

## Summary of Recommendations

This listing below serves as a means of summarizing the recommendations contained in the report, the university system responses thereto, and a reference to the supporting comments.


Recommendation #1

We recommend the university establish procedures to charge leave benefits to grant projects in accordance with federal regulations. . . . . 6

University Response: Concur. See page 36.

Recommendation #2

We recommend the university:

A. Identify equipment purchased as match for a federal grant on the property records in accordance with federal regulations. . . . . 7

University Response: Concur. See page 36.

B. Exclude equipment costs used as match from its indirect cost rate calculation. . . . . 7

University Response: Concur. See page 36.

Recommendation #3

We recommend the university separately identify operating and equipment expenditures used to match federal grants on the accounting records in accordance with federal regulations. . . . . 8

University Response: Concur. See page 36.

Recommendation #4

We recommend the university continue its efforts to ensure grantor agencies are billed and grant reports are submitted on a timely basis. . . . . 10

University Response: Concur. See page 37.

Recommendation #5

We recommend the university establish procedures to ensure the student status confirmation reports are submitted to the central processing center on a timely basis. . . . . 12

University Response: Concur. See page 37.

## Summary of Recommendations


Recommendation #6

We recommend the university properly classify its financial activity on the state's accounting records. . . . . 14

University Response: Concur. See page 37.

Recommendation #7

We recommend the university account for donations and gifts made to the university on the university's accounting records. . . . . 15

University Response: Concur. See page 38.

Recommendation #8

We recommend the university establish procedures to ensure compliance with the operating budget restrictions contained in the appropriation laws. . . . . 16

University Response: Concur. See page 38.

Commissioner of Higher Education: Concur. See page 41.

Recommendation #9

We recommend the university establish procedures to ensure payroll system changes are complete. . . . . 18

University Response: Concur. See page 38.

Recommendation #10

We recommend the university establish procedures to ensure termination payments are calculated correctly. . . . . 18

University Response: Concur. See page 39.

# Introduction

## Introduction

We performed a financial-compliance audit of the University of Montana for the two fiscal years ended June 30, 1991. The scope of this audit excludes the Dillon campus, which is audited separately. We performed the audit in accordance with the requirements of the Single Audit Act of 1984 and the Office of Management and Budget Circular A-128, except for the reporting requirements which will be addressed in our Single Audit report for the two fiscal years ended June 30, 1991. We completed specific audit tests related to federal financial assistance programs.

The objectives of our audit were to:

1. Make recommendations for the improvement of management and internal controls.

2. Determine if the university complied with applicable state and federal laws and regulations.

3. Determine whether prior audit recommendations have been effectively implemented.

4. Determine if the financial statements of the university present fairly its financial position and results of operations for the two fiscal years ending June 30, 1991.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

## Background

The University of Montana, with a home campus located at Missoula and a separate campus in Dillon, received its charter in February 1893. The statutory authority for this unit is contained in section 20-25-205, MCA. Supervision and control of the university is vested with the State Board of Regents of Higher Education. The university president and staff direct day-to-day operations.

Section 20-25-205, MCA, specifies that this institution "shall have for its purpose instruction in all departments of science, in

literature, in the arts, and in industrial and professional education." The university is a comprehensive undergraduate, graduate, research and public service institution with schools of journalism, pharmacy and allied health sciences, and law. Programs at the graduate and professional levels are rooted in the broadly based undergraduate programs in the liberal arts and sciences.

The university is financed primarily by state appropriations, student fees, and auxiliary enterprises such as residence halls, food services, and the student union. As detailed in Table 1, the university reported the following student full-time equivalents (FTE) during fiscal years 1989-90 and 1990-91.

**Table 1**
University of Montana
Schedule of Student Full-Time Equivalents
For the Two Fiscal Years Ended June 30, 1991

| | Fiscal Year 1989-90 | | Fiscal Year 1990-91 | |
|---|---|---|---|---|
| | Unrestricted FTE(a) | Restricted FTE(b) | Unrestricted FTE(a) | Restricted FTE(b) |
| Summer Quarter | | | | |
| Lower Division | 343 | | 417 | 3 |
| Upper Division | 502 | | 537 | |
| Graduate | 318 | 3 | 297 | |
| Total | 1,163 | 3 | 1,251 | 3 |
| Autumn Quarter | | | | |
| Lower Division | 5,578 | 8 | 5,676 | 18 |
| Upper Division | 2,174 | | 2,334 | |
| Graduate | 787 | | 799 | |
| Total | 8,539 | 8 | 8,809 | 18 |
| Winter Quarter | | | | |
| Lower Division | 5,122 | 14 | 5,185 | 20 |
| Upper Division | 2,405 | | 2,577 | |
| Graduate | 804 | | 795 | |
| Total | 8,331 | 14 | 8,557 | 20 |
| Spring Quarter | | | | |
| Lower Division | 4,457 | 17 | 4,543 | 14 |
| Upper Division | 2,502 | | 2,630 | |
| Graduate | 813 | | 782 | |
| Total | 7,772 | 17 | 7,955 | 14 |

(a) Student credit hours generated in any course in which the instructor's teaching responsibilities are funded by the current unrestricted operating budget.

(b) Student credit hours generated in any course in which the instructor's teaching responsibilities are funded by sources outside the current unrestricted operating budget.

Source: Compiled by the Office of the Legislative Auditor from university records.

# Prior Audit Recommendations

## Prior Audit Recommendations

In our prior audit, for the two fiscal years ended June 30, 1989, we made 15 individual recommendations to the university. The university implemented 11, partially implemented 2 and did not implement 2. It concurred with 13 of the recommendations and did not concur with 2.

The recommendations not implemented concern reverting moneys to the state General Fund. The university did not concur with the two recommendations to revert moneys to the state General Fund. In the prior audit report response, the university explained that due to time constraints, it was unable to get approval for a budget amendment to spend additional money generated by special tuition charges in its law, pharmacy, and physical therapy programs. However, the university maintains the additional tuition was used for its intended purpose and consequently did not revert $176,654. The university also did not concur with the recommendation to revert $58,455 to the state General Fund. The university began eliminating negative fund balances in fiscal year 1988-89, by using prior year expenditures as a one-time transfer of Current Unrestricted Operating Funds. The Commissioner of Higher Education directed the university to eliminate the deficits and this method was used to implement the directive. University personnel indicated these two recommendations were special circumstances and the situations would not occur again.

The partially implemented recommendation addressed in this report concerns billing and reporting of grant activity (page 9). The other partially implemented recommendation has been discussed with management.

One of the prior audit recommendations implemented concerns establishing additional procedures to ensure indirect costs are charged according to program guidelines. In the current audit, we found one instance where a United States Department of Agriculture project (CFDA #10.001) was overcharged $105 for indirect costs. Since the grant had been closed, we question the allowability of these costs for federal reimbursement.

# Findings and Recommendations

## Compliance with Federal Regulations

The university receives both major and nonmajor federal financial assistance from several federal departments. These include the U.S. Departments of Education, Health and Human Services, Agriculture, and Interior; the National Science Foundation; the National Foundation of Arts and Humanities; and various other federal agencies. During fiscal year 1990-91 the university spent approximately $10 million relating to federal grants and contracts. We performed tests to determine the university's compliance with selected federal regulations. We identified the following areas where the university should improve procedures to comply with federal regulations.

### Overcharge of Leave Benefits

Federal grant regulations allow fringe benefits in the form of regular compensation, such as annual leave and sick leave, to be paid to employees working on grants provided the costs are distributed to all institutional activities in proportion to the relative amount of time or effort actually devoted by the employee. We reviewed the university's procedures for charging sick and annual leave benefits to grants and determined the procedures used can result in overcharges to the individual grants.

The university charges grant and contract projects for actual time worked on the project and an additional percentage of salaries for leave time earned by employees while they worked on grant projects. In addition, when an employee uses leave benefits during a specific month while working on a grant project, the university charges the actual leave taken to the grant project the employee worked on during the time the leave was taken. Under the current method, the university can overcharge grants since it charges leave directly to the grant when it is earned and again when it is taken, and employees may work on several grants or other university positions over a period of time. An employee may work on a grant for a year, earn vacation leave, but not take any of the leave. This employee may then work on another grant project and take two weeks of vacation leave. Under the current system, the university would charge all of the vacation leave taken to the second grant, thereby overcharging the second grant. We noted the university charged a

rural rehabilitation grant project (U.S. Department of Education, CFDA #84.133B) $8,172 for one employee's leave benefits. However, the employee only earned $5,225 of leave benefits while working on the grant. As a result, we question the allowability of $2,947 charged to the grant. Because of the university's procedures, the university could overcharge for leave benefits on other grants.

University personnel became aware of leave benefit concerns during a college and university controller's meeting. University personnel believe this is a university system-wide concern and all the units need to work with the Commissioner of Higher Education's Office to resolve the problem.

**Recommendation #1**

**We recommend the university establish procedures to charge leave benefits to grant projects in accordance with federal regulations.**

**Property Records**

The university uses the state's Property Accountability Management System (PAMS) to manage and account for its fixed assets. The university recorded total equipment of $17,928,283 on PAMS at June 30, 1991. Federal regulations, OMB Circular A-110 (Attachment N), require the property records identify equipment purchased, in part or in whole, with federal funds. If the required property records are maintained, federal regulations allow universities to include equipment purchased with non-federal funds or funds not used to match a federal grant in its indirect cost calculation.

During the audit, we noted the university does not identify on PAMS equipment purchased with state funds used as match on federal grant programs. Currently, the university identifies property on its records based on the funding source. If federal funds paid for the equipment, the university identifies the

equipment as being purchased with federal funds. When it prepares its indirect cost proposal, the university reduces the total property included in the proposal by the amount of equipment identified as being purchased with federal funds. However, since any property purchased as a match on a federal grant is recorded as university property, the university does not exclude the equipment used as match from its indirect cost proposal. If the university eliminates the property purchased as match on a federal grant from its indirect cost proposal, it would recover less indirect costs. However, because the university does not identify all of its equipment purchased for a federal grant on its accounting records, equipment charges may not be allowable as part of the university's indirect cost calculation. If all equipment was excluded from the indirect cost calculation, the university would recover even less indirect costs.

One example of matching equipment being recorded as university property occurred on a National Science Foundation grant (Data Acquisition & Management System, CFDA #47.099). The university purchased $4,746 worth of computer equipment as a match on the grant and included this equipment in its indirect cost pool. However, equipment charged as match and as a direct project cost cannot also be used as an indirect cost. University personnel indicated they had not interpreted the federal regulation as requiring it to identify, and therefore exclude, equipment used as match on a federal grant. Personnel further indicated that few of its federal grants are matched with equipment.

**Recommendation #2**

**We recommend the university:**

**A. Identify equipment purchased as match for a federal grant on the property records in accordance with federal regulations.**

**B. Exclude equipment costs used as match from its indirect cost rate calculation.**

**Accounting for Grant Match**

Federal regulations, OMB Circular A-110 (Attachment F), state, "Recipients' financial management systems shall provide for accurate, current, and complete disclosure of financial results of each federally sponsored project or program." Some of the university's grant projects require the state to match the federal expenditures. The university maintains a system to track personal service expenditures used to match specific federal grants; however, it does not maintain a system to clearly identify operating expenditures and equipment purchases as expenditures used for the grant match. Without the accounting records clearly identifying expenditures used to match specific grants, the potential exists for the same expenditures to be used as match on more than one grant.

As discussed in the previous report section, the university purchased $4,746 of computer equipment as match on the National Science Foundation grant (Data Acquisition and Management System, CFDA #47.099). We determined the university did not separately identify the $4,746 expenditure used to match the grant on the state's accounting system; therefore, the university could not document the expenditure was not used as match for more than one grant. As a result, we question the allowability of $4,746 used as match on the grant. University personnel stated they have very few grants that require a match of operating expenditures or equipment purchases and, therefore, did not set up a separate system on the Statewide Budgeting and Accounting System (SBAS) to track expenditures on their accounting records.

**Recommendation #3**

**We recommend the university separately identify operating and equipment expenditures used to match federal grants on the accounting records in accordance with federal regulations.**

**Untimely Billing and Reporting for Grant Projects**

As discussed earlier, the university receives its federal assistance from several federal agencies. It also receives state, local and private funds for grants. The university obtains moneys through letters of credit, receipt by U.S. Treasury check and direct billings to state, local, and private agencies. During our audit, we tested eight grants for timely billings and found four grants were not billed in a timely manner during the audit period. The university processed billings for these grants anywhere from 11 to 229 days past the scheduled billing dates. Table 2 identifies the grants with untimely billings.

**Table 2**

Grants with Untimely Billings

| Granting Agency | Federal CFDA Number | Name |
|---|---|---|
| USDA | 10.001 | Pedigree Analysis in Brassica |
| USDI | 15.999 | Wolf Ecology Project/Glacier Nat'l |
| State of Montana | None | Bio Tech Ctr for Excellence |
| Energy - INEL | 81.999 | Contaminants Honey Bees EG&G |

Grants requiring billing generally operate on a cost-reimbursement basis. Untimely billings result in the university needing loans since state funds must support grant activities longer than necessary. The average short-term investment pool yield for fiscal year 1990-91 was 7.6 percent. Applying this yield rate to the late billings, we estimate the state lost as much as $2,220 of interest as a result of late billings on the above four grants. In addition, at June 30, 1990 and 1991, the university had $900,000 and $600,000, respectively, of loans to cover negative cash balances in its federal and state grant accounts. If the university had billed grantors on a timely basis, it should have been able to reduce the amount of loans needed.

In addition to untimely billings, we also tested 12 grants for timely reporting and found seven instances where the university did not submit required reports to the grantor on time. The university processed reports for these grants anywhere from 6 to 177 days past the scheduled reporting dates. Table 3 identifies the grants with untimely reporting.

**Table 3**

Grants with Untimely Reports

| Granting Agency | Federal CFDA Number | Name |
|---|---|---|
| HHS | 13.632 | MUAPS Core Grant 1989-90 |
| USDA | 10.001 | Pedigree Analysis in Brassica |
| Education | 84.024 | Education Home Mod Pro Yr. 3 |
| Education | 84.133 | Rural Rehabilitation Serv. Yr. 3 |
| USDI | 15.999 | Wolf Ecology Project/Glacier Nat'l |
| State of Montana | None | MSTA Financing Agreement |
| State of Montana | None | Bio Tech Ctr of Excellence |

Granting agencies require either monthly, quarterly, annual or end of grant final financial reports detailing the expenditures of the grant. The financial report is an important management tool used by granting agencies to monitor grant progress. This is particularly true of granting agencies which permit letter of credit drawdowns or advances of grant funds.

In our prior audit report we included a recommendation for the university to bill grantor agencies on a timely basis. The university made an effort during this audit period to improve the timeliness of billings. The Controller's Office implemented a new grant billing system in March 1991 and emphasized the need for more timely bills and reports to meet the grant reporting and billing requirements. The university also plans to create a tickler file to generate a monthly report listing grants needing either a bill or report prepared.

**Recommendation #4**

**We recommend the university continue its efforts to ensure grantor agencies are billed and grant reports are submitted on a timely basis.**

**Timeliness of Stafford Loan Reporting**

The Stafford Loan Program (CFDA #84.032) requires postsecondary educational institutions who issue student Stafford Loans to notify lenders whenever students graduate, withdraw, or cease to be enrolled at least half-time. This notification enables the lenders to place the loans in repayment status. The university reports the changes to a central processing center on a Student Confirmation Report (SCR). The SCR lists all students receiving a loan and their latest enrollment status. After university personnel send the SCR to the central processing company, the company uses the information to notify applicable lenders. Federal regulations require the university to return the SCR report to the central processing company within 30 days.

From winter 1990 to spring quarter 1991, the university failed to return the SCR reports within the required 30-day period for five of six academic quarters. The following table discloses how late the reports were.

**Table 4**

Untimely SCR Reporting

| Quarter | Number of Days Late |
|---|---|
| Winter 1990 | 24 |
| Spring 1990 | 39 |
| Autumn 1990 | 41 |
| Winter 1991 | 57 |
| Spring 1991 | 54 |

University personnel stated one reason the reports were late relates to the time financial aid office staff devoted to the conversion to a new financial aid computer system. When the computer conversion is complete, university personnel believe they will have more staff time to complete the report. Personnel also stated under the current quarter system, the reports were due during the same time financial aid checks were distributed to students. Personnel believe the semester system will allow for more lead time to prepare the reports. The university will convert to the semester system effective Fall 1992.

**Recommendation #5**

**We recommend the university establish procedures to ensure the student status confirmation reports are submitted to the central processing center on a timely basis.**

## Ensuring Accounting Records Fairly Disclose University Financial Operations

Financial information of the university is used by the university, regents, legislators, and others to manage and establish funding levels for the university. The Statewide Budgeting and Accounting System (SBAS) is the university's primary accounting records. House Bill 100, Laws of 1989, states, "university units shall account for expenditures consistently within programs and funds. . . and shall use . . . the college and university business administration (CUBA) system, as a minimum standard for achieving consistency." During our testing we noted the following five instances where the accounting records did not properly classify university financial activity.

1. The university records the 70 percent of the college work study (CWS) program expenditures paid by the federal government as scholarships and fellowships expenditures. University accounting principles require the federal share be recorded as a restricted fund expenditure of the program in which the student is employed. In fiscal years 1989-90 and 1990-91, federal CWS expenditures incorrectly recorded as scholarships and fellowships on SBAS were $573,703 and $695,882, respectively. University personnel were not aware of the requirement.

2. When CWS students obtain work at an off-campus organization, the university bills the off-campus employers for the 30 percent share of the CWS funding. When the off-campus employers pay the university for their share of the employees' wages, the university records the money as revenue on its accounting records. Since the university paid the students on behalf of the off-campus employer, the reimbursement of costs should be recorded as an abatement of expenditures rather than as revenue. Revenue and expenditures are overstated in the Restricted Fund by

approximately $53,000 and $77,000 in fiscal years 1989-90 and 1990-91, respectively. University personnel did not realize their current method of accounting for off-campus CWS caused the overstatement of revenue and expenditures.

3. The university receives moneys from federal, state, and private sources. The university misclassified the revenue sources on the accounting records. Federal revenue is understated by $283,705, state revenue is overstated by $109,338 and miscellaneous revenue is overstated by $174,367 on the accounting records in fiscal year 1990-91. Personnel indicated they review all Restricted Fund revenue and make adjustments when preparing the financial statements. However, making adjustments to the financial statements does not ensure the accounting records are properly classified.

4. The university has departments that provide services to other institutional departments (i.e., vehicle pool) and bill for those services. University accounting principles require the elimination of these transactions between departments. The difference between the prices billed and the cost to the service center should be reflected as institutional support expenditures. Currently, the university records the difference in the various expenditure programs. Therefore, institutional support program expenditures are understated by $164,604 and the other expenditure programs are overstated on the accounting records in fiscal year 1990-91. The university personnel indicated they correctly classified the expenditures on their adjusted financial statements.

5. The university recorded a donated ranch in the Current Designated Fund. The will specifically stated the property was to be used for forestry and range management research and all receipts from the ranch operation were to be used to support the research activities. Since these moneys were restricted by an outside source, the university should record the activity in the Current Restricted Fund. Fiscal year 1990-91 ranch revenue and expenditures were $101,629 and $86,447, respectively. University personnel believed recording the ranch in the Current Designated Fund more accurately reflected the activity. In addition, the university records its grant termination pool in the Current Restricted Fund. Since these moneys are not restricted by an outside source, the university should record the grant termination pool in the Current Designated Fund. Termination pool account revenue and expenditure activity was $130,497 and $36,675, respectively, during the audit period.

Without all financial activity properly recorded on SBAS, the quality, consistency, and comparability of the resulting information is affected.

**Recommendation #6**

**We recommend the university properly classify its financial activity on the state's accounting records.**

## Recording Donations at the University of Montana Foundation

The university and its related Foundation each receive donations from outside parties. The Foundation is a nonprofit, tax-exempt corporation established to solicit and receive donations to fund various activities at the university. The university contracts with the Foundation to provide fund raising activities and administer selected university assets. Currently, the university's fund raising policy guidelines direct university department's to transmit gifts and donations directly to the Foundation.

During the previous audit the university removed a $103,877 endowment from its financial statements. Based upon our written communication with the university, the endowment was put back on the university's financial statements as an asset managed by the Foundation. During fiscal year 1990-91, the university removed the endowment from its accounting records and transferred the endowment to the Foundation. We also noted instances where other donations the university received were not recorded on the university's records but were given to the Foundation. For example, at the Rural Institute on Disabilities we observed copies of checks made payable to the university which were sent to the Foundation for deposit in the Foundation's accounts.

Donations made to the university are university assets and must be recorded on the university's accounting records. The university should ensure the Controller's Office is notified of all gifts and donations made to the university. The university should

record revenue and expenditures related to donated activity each fiscal year in its accounting records.

According to university personnel, the university chose to make the Foundation the central office bearing the responsibility of soliciting, administering, and acknowledging donations to and for the benefit of the university. Therefore, the university decided the Foundation should be the primary source of formal acceptance and accounting for donations. We do not take exception to utilizing the Foundation as the primary fund raising entity and manager of the funds as long as the university accounts for donations made to the university as state assets. In addition, university personnel indicated not all donors realize there is a distinction between the university and the Foundation. As a result, the donor may not make his/her check payable to the Foundation. Since the university did not keep records of all revenues and expenditures of donations which were transferred to the Foundation for management, it was not practical to determine the dollar misstatement on the university's accounting records.

**Recommendation #7**

**We recommend the university account for donations and gifts made to the university on the university's accounting records.**

## Compliance with Restrictive Language in the General Appropriations Act

House Bill 100, Laws of 1989, section 7, states, "Each agency shall record its operating budgets and any approved changes on the statewide budget and accounting system" (SBAS). To ensure the budget activity is recorded on SBAS, guidance was issued to state agencies through the issuance of policy. Policy states each agency is to maintain, at a minimum, a separate reporting center for each program for all appropriation authority provided by House Bill 100.

We noted the university does not ensure its operating budgets are recorded on SBAS in the detail necessary to ensure it complies with all the restrictive language contained in House Bill 100. For example, House Bill 100 states, "Expenditures by a state agency must be made in substantial compliance with an operating budget approved by an approving authority . . . Substantial compliance means that no category in the approved operating budget may be exceeded by more than 5 percent. . . ." Based upon the university's operating budgets at fiscal year-end, we noted instances where equipment and operating expense category expenditures exceeded the 5 percent limit in the Instruction, Academic Support, Student Support, and Institutional Support programs. The university did not ensure the categories within each program were not overspent by more than 5 percent. As a result, the excess fiscal year 1990-91 program expenditures over the budgeted authority ranged from $19,548 to $186,597.

University personnel were not familiar with state policy requiring a separate reporting center for each program. Personnel indicated they would need to research how their operating budgets are recorded on SBAS. In addition, the Board of Regents (BOR) receives and approves the final budgets in October of the subsequent fiscal year. Because the BOR approval occurred after the close of the fiscal year, the budget could not be adjusted on SBAS. This does not comply with appropriation laws since the operating budgets are not recorded on SBAS.

The university should develop procedures to ensure compliance with the operating budget restrictive language contained in the general appropriation act. The 1991 Legislature enacted similar restrictions in the general appropriations act and also incorporated some of the restrictions into substantive law in Chapter 787, Laws of 1991.

**Recommendation #8**

**We recommend the university establish procedures to ensure compliance with the operating budget restrictions contained in the appropriation laws.**

## Payroll

The university processed approximately $50 million of personal service expenditures in fiscal year 1990-91. Our audit identified areas where we believe the university should improve controls over the payroll system. The control weaknesses noted affect controls over the university's federal funds as listed on page 5 of this report.

### Calculation of Deductions

The Internal Revenue Service (IRS) publishes federal income tax withholding schedules for each calendar year. The university is required to update deduction information on its computer system for the changes in tax deductions. This allows the computer to properly calculate deductions from employees' gross pay.

During our audit we sampled payroll items to ensure the university's computer system properly calculated deductions according to the federal rates. For calendar years 1990 and 1991, the university did not properly update its computer system for new IRS withholding tables. University personnel stated a portion of the IRS withholding table was overlooked when the computer was updated at the beginning of each calendar year. Payroll personnel did not check the accuracy of the federal withholding calculation after the withholding tables were updated on the computer system. IRS regulations require taxes withheld from employees' checks be made in accordance with the correct withholding tables.

As a result of the error, any university employees who claimed one or more withholding allowances for federal tax purposes had more taxes withheld from each paycheck than was required by federal law for calendar year 1990 and through May 1991. As a result of our audit work, university personnel corrected the withholding table information on the computer system. Therefore, beginning in June 1991 the university used the correct withholding table to calculate payroll deductions.

**Recommendation #9**

**We recommend the university establish procedures to ensure payroll system changes are complete.**

**Leave Records and Termination Pay**

State law requires the university to pay employees who terminate employment for their accumulated annual and sick leave. We tested seven employee termination payments and found two instances where the final termination amounts paid to employees were incorrect. In each instance, the university used incorrect accumulated leave balances. As a result, one employee was overpaid $175 and the other employee was underpaid $10.

The overpayment error occurred because the employee was the recipient of donated sick leave from the university's sick leave pool and the employee responsible for calculating the termination payment was new to the position. The underpayment occurred because university personnel incorrectly updated a calculation of accumulated sick and annual leave. The two errors may not have been made if the university had procedures for a supervisory review of leave payment calculations when employees terminate employment with the university. A supervisory review would be particularly beneficial for termination calculations performed by new employees and for complicated terminations such as when terminating employees receive donated sick leave.

**Recommendation #10**

**We recommend the university establish procedures to ensure termination payments are calculated correctly.**

# Independent Auditor's Report & University Financial Statements

# Summary of Independent Auditor's Report

**Summary of Independent Auditor's Report**

The independent auditor's report issued on the financial statements contained in this report is intended to convey to the reader the degree of reliance which can be placed on the amounts presented. The unqualified opinion on the financial statements indicates the reader can rely on the fairness of the amounts presented in the statements shown on pages 22 through 31.

STATE OF MONTANA

# Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
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DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of the University of Montana as of June 30, 1991, and the related Statements of Changes in Fund Balance and the Statements of Current Funds Revenues, Expenditures, and Other Changes for each of the two fiscal years then ended. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of Montana as of June 30, 1991, and the changes in fund balances and the current funds' revenues, expenditures, and other changes for each of the two fiscal years then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

January 23, 1992

BALANCE SHEET
June 30, 1991
(With Comparative Totals For 1990)

| | Current Funds | | | | | | | | Memorandum Totals Only | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Unrestricted | | | | | | | | | |
| | General Operating | Designated | Auxiliary Enterprises | Restricted | Student Loan Funds | Endowment Funds | Plant Funds | Agency Funds | 1991 | 1990 |
| **ASSETS** | | | | | | | | | | |
| Cash and Cash Equivalents | $ 3,178,063 | $ 2,810,860 | $ 3,439,618 | $ 2,091,487 | $ 771,599 | $ 730,686 | $ 4,896,074 | $ 537,020 | $ 18,455,407 | $ 16,321,458 |
| Investments | | | | | | 485,658 | 2,458,990 | | 2,944,648 | 3,999,662 |
| Accounts Receivable | 473,326 | 466,006 | 144,384 | 1,452,023 | 1,011 | | 833,920 | 27,578 | 3,398,248 | 3,724,950 |
| Less Allowance for Doubtful Accounts | | (28,105) | (12,384) | | | | | | (40,489) | (76,337) |
| Inventories | 6,885 | 656,377 | 374,033 | | | | | | 1,037,295 | 985,800 |
| Prepaid Expenses and Deferred Charges | 462,661 | 179,012 | 15,097 | 34,187 | | | 1,676,581 | 500 | 2,368,038 | 2,673,951 |
| Due from Other Fund Groups | 101,533 | 369,402 | 322,960 | 25,580 | 3,078 | | 101,173 | 5,847 | 929,573 | 1,064,281 |
| Interentity Loans Receivable | 600,000 | | | | | | | | 600,000 | 900,000 |
| Loans Receivable | | | | | 5,457,355 | | | 26,872 | 5,484,227 | 4,967,508 |
| Less Allowance for Doubtful Loans | | | | | (161,816) | | | (4,451) | (166,267) | (193,778) |
| Property Plant/Equipment & Other Assets | | | | | | | 133,359,988 | | 133,359,988 | 130,954,154 |
| **TOTAL ASSETS** | $ 4,822,468 | $ 4,453,552 | $ 4,283,708 | $ 3,603,277 | $ 6,071,227 | $ 1,216,344 | $ 143,326,726 | $ 593,366 | $ 168,370,668 | $ 165,321,649 |
| **LIABILITIES AND FUND BALANCE** | | | | | | | | | | |
| Accounts Payable and Accrued Liabilities | $ 3,639,150 | $ 1,145,485 | $ 1,067,151 | $ 677,495 | $ 220 | $ | $ 86,976 | $ 174,742 | $ 6,791,219 | $ 6,013,426 |
| Accrued Interest Payable | | | | | | | 904,096 | | 904,096 | 753,648 |
| Students' Deposits | 13,300 | | 184,884 | | | | | | 198,184 | 192,518 |
| Due to Other Fund Groups | 16,054 | 108,078 | 181,218 | 264,300 | 56,167 | | 202,981 | 100,775 | 929,573 | 1,064,281 |
| Deferred Revenue | 427,084 | 238,918 | 195,045 | | | | 41,262 | 5,916 | 908,225 | 846,407 |
| Deposits Held in Custody for Others | | | | | | | | 309,525 | 309,525 | 270,617 |
| Current Notes Payable | | | | | | | 10,932 | | 10,932 | 0 |
| Long Term Obligations | | | | | | | 1,681,286 | | 1,681,286 | 195,612 |
| Interentity Loans Payable | | | | 600,000 | | | | | 600,000 | 900,000 |
| Bonds Payable | | | | | | | 16,466,757 | | 16,466,757 | 19,537,429 |
| Sick and Annual Leave Liability | 4,018,984 | 261,180 | 473,778 | | | | | 2,408 | 4,756,350 | 4,233,756 |
| **TOTAL LIABILITIES** | $ 8,114,572 | $ 1,753,661 | $ 2,102,076 | $ 1,541,795 | $ 56,387 | $ 0 | $ 19,394,290 | $ 593,366 | $ 33,556,147 | $ 34,007,694 |
| Fund Balances | (3,292,104) | 2,699,891 | 2,181,632 | 2,061,482 | 6,014,840 | 1,216,344 | 123,932,436 | | 134,814,521 | 131,313,955 |
| **TOTAL LIABILITIES AND FUND BALANCE** | $ 4,822,468 | $ 4,453,552 | $ 4,283,708 | $ 3,603,277 | $ 6,071,227 | $ 1,216,344 | $ 143,326,726 | $ 593,366 | $ 168,370,668 | $ 165,321,649 |
| Fund Balances Consist of: | | | | | | | | | | |
| Unrestricted – | | | | | | | | | | |
| General | $ (3,292,104) | $ 2,699,891 | $ 2,181,632 | | $ 44,669 | | | | $ 1,634,088 | $ 961,255 |
| Unexpended | | | | | | | $ 2,407,118 | | 2,407,118 | 2,347,572 |
| Renewal and Replacement | | | | | | | 1,979,640 | | 1,979,640 | 3,084,653 |
| Retirement of Indebtedness | | | | | | | 6,085,592 | | 6,085,592 | 7,112,597 |
| Restricted – | | | | | | | | | | |
| U.S. Government Grants Refundable | | | | | 5,020,118 | | | | 5,020,118 | 4,788,372 |
| General | | | | $ 2,061,482 | 950,053 | $ 1,216,344 | | | 4,227,879 | 3,947,226 |
| Net Investment in Plant | | | | | | | 113,460,086 | | 113,460,086 | 109,072,280 |
| **TOTAL FUND BALANCES** | $ (3,292,104) | $ 2,699,891 | $ 2,181,632 | $ 2,061,482 | $ 6,014,840 | $ 1,216,344 | $ 123,932,436 | $ | $ 134,814,521 | $ 131,313,955 |



See Summary of Significant Accounting Policies and Notes to Financial Statements.

STATEMENT OF CHANGES IN FUND BALANCE
Year Ended June 30, 1991

| | Current Funds | | | | | | Plant Funds | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Unrestricted | | | | | | | | | |
| | General Operating | Designated | Auxiliary Enterprises | Restricted | Student Loans | Endowment Funds | Unexpended | Renewal & Replacement | Retirement of Indebtedness | Investment In Plant |
| **REVENUES AND OTHER ADDITIONS** | | | | | | | | | | |
| Unrestricted Current Fund | $ 43,484,038 | $ 6,915,857 | $ 13,162,253 | $ | $ | $ | $ | $ | $ | $ |
| Private Gifts, Grants and Contracts | | | | 3,195,061 | 11,295 | | 90,000 | | | 1,532,333 |
| Federal Contributions | | | | | 160,470 | | | | | |
| Government Grants and Contracts | | | | 11,613,561 | | | | | | |
| Land Grant Income | | | | | | | 178,692 | | | |
| Interest and Recovery on Loans | | | | | 126,602 | | | | | |
| Student Fees | | | 2,565,280 | | | | 472,345 | | 749,407 | |
| Investment Income | | | 255,635 | 197,332 | 55,638 | | 51,888 | 147,811 | 518,179 | |
| Retirement of Indebtedness | | | | | | | | | | 1,574,071 |
| Expended for Plant Facilities | | | | | | | | | | 3,279,020 |
| Other | | | 41,672 | | 8,820 | | 226,740 | 98,543 | | |
| **TOTAL REVENUES AND OTHER ADDITIONS** | $ 43,484,038 | $ 6,915,857 | $ 16,024,840 | $ 15,005,954 | $ 362,825 | $ 0 | $ 1,019,665 | $ 246,354 | $ 1,267,586 | $ 6,385,424 |
| **EXPENDITURES AND OTHER DEDUCTIONS** | | | | | | | | | | |
| Educational & General Expenditures | $ 43,194,820 | $ 6,310,518 | $ | $ 14,962,225 | $ | $ | $ 53,717 | $ 596,394 | $ 31,570 | $ |
| Auxiliary Enterprises Expenditures | | | 13,555,671 | | | | | | | |
| Loan Cancellations, Collection Costs and Bad Debt Expense | | | | | 84,657 | | | | | |
| Expended for Plant Facilities | | | | | | | 164,304 | 828,243 | | 2,585,970 |
| Retirement of Indebtedness | | | | | | | | | 3,070,673 | |
| Interest on Indebtedness | | | | | | | | | 1,427,032 | |
| **TOTAL EXPENDITURES AND OTHER DEDUCTIONS** | $ 43,194,820 | $ 6,310,518 | $ 13,555,671 | $ 14,962,225 | $ 84,657 | $ 0 | $ 218,021 | $ 1,424,637 | $ 4,529,275 | $ 2,585,970 |
| **TRANSFERS AMONG FUNDS/ADDITIONS(DEDUCTIONS)** | | | | | | | | | | |
| Mandatory: | | | | | | | | | | |
| Principal and Interest | $ | $ (202,965) | $ (736,784) | $ | $ | $ | $ (598,629) | $ | $ 1,538,378 | $ |
| Renewals and Replacements | | | (33,562) | | | | | 98,352 | (64,790) | |
| Loan Fund Matching | (13,000) | | | 3,969 | 9,031 | | | | | |
| Other | | | (1,476,680) | | | | (5,068) | | 1,481,748 | |
| Non-Mandatory | (148,997) | (92,693) | 211,255 | 160,431 | | | 144,673 | 447,096 | (721,765) | |
| Net Investment in Plant | | | | | | | (283,074) | (476,026) | | 759,100 |
| **TOTAL TRANSFERS/ADDITIONS(DEDUCTIONS)** | $ (161,997) | $ (295,658) | $ (2,035,771) | $ 164,400 | $ 9,031 | $ 0 | $ (742,098) | $ 69,422 | $ 2,233,571 | $ 759,100 |
| **NET INCREASE(DECREASE) FOR THE YEAR** | $ 127,221 | $ 309,681 | $ 433,398 | $ 208,129 | $ 287,199 | $ 0 | $ 59,546 | $ (1,108,861) | $ (1,028,118) | $ 4,558,554 |
| Fund Balance - Beginning of Year | $ (3,242,265) | $ 2,387,006 | $ 1,754,908 | $ 1,853,219 | $ 5,727,641 | $ 1,216,344 | $ 2,347,572 | $ 3,084,653 | $ 7,112,597 | $ 109,072,280 |
| Prior Year Adjustments | (177,060) | 3,204 | (6,674) | 134 | | | | 3,848 | 1,113 | (170,748) |
| **FUND BALANCE - BEGINNING OF YEAR RESTATED** | $ (3,419,325) | $ 2,390,210 | $ 1,748,234 | $ 1,853,353 | $ 5,727,641 | $ 1,216,344 | $ 2,347,572 | $ 3,088,501 | $ 7,113,710 | $ 108,901,532 |
| **FUND BALANCE AT END OF YEAR** | $ (3,292,104) | $ 2,699,891 | $ 2,181,632 | $ 2,061,482 | $ 6,014,840 | $ 1,216,344 | $ 2,407,118 | $ 1,979,640 | $ 6,085,592 | $ 113,460,086 |



See Summary of Significant Accounting Policies and Notes to Financial Statements

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
Year Ended June 30, 1991
(With Comparative Totals For 1990)

| | Unrestricted | | | | Memorandum Totals Only | |
|---|---|---|---|---|---|---|
| | General Operating | Designated | Auxiliary Enterprises | Restricted | 1991 | 1990 |
| **REVENUES** | | | | | | |
| Tuition and Fees | $ 12,678,418 | $ 1,672,507 | $ 2,565,280 | $ | $ 16,916,205 | $ 15,575,599 |
| State Appropriation | 30,420,797 | | | | 30,420,797 | 28,033,073 |
| Federal Grants and Contracts | | 578,163 | | 10,664,881 | 11,243,044 | 10,352,451 |
| State and Local Grants/Contracts | | 130,185 | | 1,015,346 | 1,145,531 | 1,352,269 |
| Private Gifts, Grants and Contracts | | 34,606 | | 3,102,246 | 3,136,852 | 2,808,591 |
| Investment Income | | | 255,635 | 179,752 | 435,387 | 336,975 |
| Sales and Service | | 3,738,947 | 13,162,253 | | 16,901,200 | 14,617,736 |
| Other Sources | 384,823 | 761,449 | 41,672 | | 1,187,944 | 844,318 |
| TOTAL CURRENT REVENUES | $ 43,484,038 | $ 6,915,857 | $ 16,024,840 | $ 14,962,225 | $ 81,386,960 | $ 73,921,012 |
| **EXPENDITURES AND MANDATORY TRANSFERS** | | | | | | |
| Educational and General: | | | | | | |
| Instruction | $ 22,231,208 | $ 1,839,592 | $ | $ 2,105,037 | $ 26,175,837 | $ 24,079,871 |
| Research | 1,309,946 | 781,864 | | 4,478,495 | 6,570,305 | 5,948,484 |
| Public Service | 235,046 | 249,162 | | 482,534 | 966,742 | 590,144 |
| Academic Support | 5,517,474 | 154,792 | | 942,489 | 6,614,755 | 6,431,346 |
| Student Services | 3,544,781 | 3,035,600 | | 726,367 | 7,306,748 | 6,096,183 |
| Institutional Support | 3,917,701 | 249,508 | | | 4,167,209 | 3,310,941 |
| Operations and Maintenance of Plant | 5,317,580 | | | | 5,317,580 | 5,443,265 |
| Scholarships and Fellowships | 1,121,084 | | | 6,227,303 | 7,348,387 | 7,143,360 |
| EDUCATIONAL AND GENERAL EXPENDITURES | $ 43,194,820 | $ 6,310,518 | $ | $ 14,962,225 | $ 64,467,563 | $ 59,043,594 |
| Auxiliary Enterprises Expenditures | | | $ 13,555,671 | | 13,555,671 | 12,577,351 |
| TOTAL EXPENDITURES | $ 43,194,820 | $ 6,310,518 | $ 13,555,671 | $ 14,962,225 | $ 78,023,234 | $ 71,620,945 |
| **MANDATORY TRANSFERS** | | | | | | |
| Principal and Interest | $ | $ 202,965 | $ 736,784 | | $ 939,749 | $ 872,560 |
| Renewals and Replacements | | | 33,562 | | 33,562 | 360,000 |
| Loan Fund Matching | 13,000 | | | (3,969) | 9,031 | 20,698 |
| Other | | | 1,476,680 | | 1,476,680 | 834,794 |
| TOTAL MANDATORY TRANSFERS | $ 13,000 | $ 202,965 | $ 2,247,026 | $ (3,969) | $ 2,459,022 | $ 2,088,052 |
| TOTAL EXPENDITURES AND MANDATORY TRANSFERS | $ 43,207,820 | $ 6,513,483 | $ 15,802,697 | $ 14,958,256 | $ 80,482,256 | $ 73,708,997 |
| **OTHER TRANSFERS AND ADDITIONS(DEDUCTIONS)** | | | | | | |
| Restricted Receipts Over (Under) Transfers to Revenue | $ | $ | $ | $ 43,729 | $ 43,729 | $ 147,463 |
| Non-Mandatory Transfers | (148,997) | (92,693) | 211,255 | 160,431 | 129,996 | 307,322 |
| TOTAL OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS) | $ (148,997) | $ (92,693) | $ 211,255 | $ 204,160 | $ 173,725 | $ 454,785 |
| NET INCREASE (DECREASE) IN FUND BALANCE | $ 127,221 | $ 309,681 | $ 433,398 | $ 208,129 | $ 1,078,429 | $ 666,800 |



See Summary of Significant Accounting Policies and Notes to Financial Statements.

STATEMENT OF CHANGES IN FUND BALANCE
Year Ended June 30, 1990

| | Current Funds | | | | | | Plant Funds | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Unrestricted | | | | | | | | | |
| | General Operating | Designated | Auxiliary Enterprises | Restricted | Student Loans | Endowment Funds | Unexpended | Renewal & Replacement | Retirement of Indebtedness | Investment In Plant |
| **REVENUES AND OTHER ADDITIONS** | | | | | | | | | | |
| Unrestricted Current Fund | $ 40,585,913 | $ 5,142,590 | $ 11,827,593 | $ | $ | $ | $ | $ | $ | $ |
| Private Gifts, Grants and Contracts | | | | 2,866,212 | 2,500 | 1,300 | 10,000 | | | 364,902 |
| Federal Contributions | | | | | 186,282 | | | | | |
| Government Grants and Contracts | | | | 10,974,049 | | | | | | |
| Land Grant Income | | | | | | | 196,431 | | | |
| Interest and Recovery on Loans | | | | | 109,643 | | | | | |
| Student Fees | | | 2,242,913 | | | | 451,085 | | 695,387 | |
| Investment Income | | | 177,772 | 203,598 | 58,955 | | 76,306 | 186,672 | 624,427 | |
| Retirement of Indebtedness | | | | | | | | | | 1,248,791 |
| Expended for Plant Facilities | | | | | | | | | | 2,853,427 |
| Other | | | 47,835 | | | | 6,120 | 151,485 | | |
| **TOTAL REVENUES AND OTHER ADDITIONS** | $ 40,585,913 | $ 5,142,590 | $ 14,296,113 | $ 14,043,859 | $ 357,380 | $ 1,300 | $ 739,942 | $ 338,157 | $ 1,319,814 | $ 4,467,120 |
| **EXPENDITURES AND OTHER DEDUCTIONS** | | | | | | | | | | |
| Educational & General Expenditures | $ 40,643,258 | $ 4,503,940 | $ | $ 13,896,396 | $ | $ | $ 101,289 | $ 427,750 | $ 27,448 | $ |
| Auxiliary Enterprises Expenditures | | | 12,577,351 | | | | | | | |
| Loan Cancellations, Collection Costs and Bad Debt Expense | | | | | 105,047 | | | | | |
| Expended for Plant Facilities | | | | | | | 585,023 | 817,438 | | 1,302,541 |
| Retirement of Indebtedness | | | | | | | | | 1,340,187 | |
| Interest on Indebtedness | | | | | | | | | 1,567,845 | |
| **TOTAL EXPENDITURES AND OTHER DEDUCTIONS** | $ 40,643,258 | $ 4,503,940 | $ 12,577,351 | $ 13,896,396 | $ 105,047 | $ | $ 686,312 | $ 1,245,188 | $ 2,935,480 | $ 1,302,541 |
| **TRANSFERS AMONG FUNDS/ADDITIONS(DEDUCTIONS)** | | | | | | | | | | |
| Mandatory: | | | | | | | | | | |
| Principal and Interest | $ | $ (134,565) | $ (737,995) | $ | $ | $ | $ (936,446) | $ | $ 1,809,006 | $ |
| Renewals and Replacements | | (116) | (359,884) | | | | | 531,965 | (171,965) | |
| Loan Fund Matching | (20,698) | | | | 20,698 | | | | | |
| Other | | (120) | (834,674) | | | | 137,902 | 26,948 | 669,944 | |
| Non-Mandatory | (158,841) | 157,576 | 184,522 | 124,065 | (3,686) | 3,716 | 153,895 | 319,434 | (780,681) | |
| Net Investment in Plant | | | | | | | 598,159 | (290,177) | | (307,982) |
| **TOTAL TRANSFERS/ADDITIONS(DEDUCTIONS)** | $ (179,539) | $ 22,775 | $ (1,748,031) | $ 124,065 | $ 17,012 | $ 3,716 | $ (46,490) | $ 588,170 | $ 1,526,304 | $ (307,982) |
| **NET INCREASE(DECREASE) FOR THE YEAR** | $ (236,884) | $ 661,425 | $ (29,269) | $ 271,528 | $ 269,345 | $ 5,016 | $ 7,140 | $ (318,861) | $ (89,362) | $ 2,856,597 |
| Fund Balance – Beginning of Year | $ (2,967,192) | $ 1,692,140 | $ 1,802,004 | $ 1,577,619 | $ 5,458,296 | $ 1,211,328 | $ 2,354,522 | $ 3,437,825 | $ 7,206,853 | $ 114,226,695 |
| Prior Year Adjustments | (38,189) | 33,441 | (17,827) | 4,072 | | | (14,090) | (34,311) | (4,894) | (8,011,012) |
| **FUND BALANCE – BEGINNING OF YEAR RESTATED** | $ (3,005,381) | $ 1,725,581 | $ 1,784,177 | $ 1,581,691 | $ 5,458,296 | $ 1,211,328 | $ 2,340,432 | $ 3,403,514 | $ 7,201,959 | $ 106,215,683 |
| **FUND BALANCE AT END OF YEAR** | $ (3,242,265) | $ 2,387,006 | $ 1,754,908 | $ 1,853,219 | $ 5,727,641 | $ 1,216,344 | $ 2,347,572 | $ 3,084,653 | $ 7,112,597 | $ 109,072,280 |



See Summary of Significant Accounting Policies and Notes to Financial Statements

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
Year Ended June 30, 1990
(With Comparative Totals For 1989)

| | Unrestricted | | | | Memorandum Totals Only | |
|---|---|---|---|---|---|---|
| | General Operating | Designated | Auxiliary Enterprises | Restricted | 1990 | 1989 |
| **REVENUES** | | | | | | |
| Tuition and Fees | $ 11,994,374 | $ 1,338,312 | $ 2,242,913 | $ | $ 15,575,599 | $ 12,825,860 |
| State Appropriation | 28,033,073 | | | | 28,033,073 | 27,726,833 |
| Federal Grants and Contracts | 208,198 | 358,877 | | 9,785,376 | 10,352,451 | 9,991,512 |
| State and Local Grants/Contracts | 22,896 | 42,534 | | 1,286,839 | 1,352,269 | 1,020,836 |
| Private Gifts, Grants and Contracts | 50,255 | 93,358 | | 2,664,978 | 2,808,591 | 2,349,211 |
| Investment Income | | | 177,772 | 159,203 | 336,975 | 361,640 |
| Sales and Service | | 2,790,143 | 11,827,593 | | 14,617,736 | 12,851,880 |
| Other Sources | 277,117 | 519,366 | 47,835 | | 844,318 | 2,087,779 |
| TOTAL CURRENT REVENUES | $ 40,585,913 | $ 5,142,590 | $ 14,296,113 | $ 13,896,396 | $ 73,921,012 | $ 69,215,551 |
| **EXPENDITURES AND MANDATORY TRANSFERS** | | | | | | |
| Educational and General: | | | | | | |
| Instruction | $ 20,387,702 | $ 1,577,684 | $ | $ 2,114,485 | $ 24,079,871 | $ 23,188,229 |
| Research | 1,270,731 | 501,494 | | 4,176,259 | 5,948,484 | 5,269,262 |
| Public Service | 219,662 | 205,582 | | 164,900 | 590,144 | 356,832 |
| Academic Support | 5,478,252 | 91,667 | | 861,427 | 6,431,346 | 5,577,400 |
| Student Services | 3,441,598 | 2,054,533 | | 600,052 | 6,096,183 | 4,580,470 |
| Institutional Support | 3,237,961 | 72,980 | | | 3,310,941 | 5,763,174 |
| Operations and Maintenance of Plant | 5,443,265 | | | | 5,443,265 | 5,127,075 |
| Scholarships and Fellowships | 1,164,087 | | | 5,979,273 | 7,143,360 | 5,968,757 |
| EDUCATIONAL AND GENERAL EXPENDITURES | $ 40,643,258 | $ 4,503,940 | $ | $ 13,896,396 | $ 59,043,594 | $ 55,831,199 |
| Auxiliary Enterprises Expenditures | | | $ 12,577,351 | | 12,577,351 | 11,689,324 |
| TOTAL EXPENDITURES | $ 40,643,258 | $ 4,503,940 | $ 12,577,351 | $ 13,896,396 | $ 71,620,945 | $ 67,520,523 |
| **MANDATORY TRANSFERS** | | | | | | |
| Principal and Interest | $ | $ 134,565 | $ 737,995 | | $ 872,560 | $ 815,618 |
| Renewals and Replacements | | 116 | 359,884 | | 360,000 | 1,220,000 |
| Loan Fund Matching | 20,698 | | | | 20,698 | 27,517 |
| Other | | 120 | 834,674 | | 834,794 | |
| TOTAL MANDATORY TRANSFERS | $ 20,698 | $ 134,801 | $ 1,932,553 | $ | $ 2,088,052 | $ 2,063,135 |
| TOTAL EXPENDITURES AND MANDATORY TRANSFERS | $ 40,663,956 | $ 4,638,741 | $ 14,509,904 | $ 13,896,396 | $ 73,708,997 | $ 69,583,658 |
| **OTHER TRANSFERS AND ADDITIONS(DEDUCTIONS)** | | | | | | |
| Restricted Receipts Over (Under) Transfers to Revenue | $ | | | $ 147,463 | $ 147,463 | $ (21,904) |
| Non-Mandatory Transfers | (158,841) | 157,576 | 184,522 | 124,065 | 307,322 | 281,753 |
| TOTAL OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS) | $ (158,841) | $ 157,576 | $ 184,522 | $ 271,528 | $ 454,785 | $ 259,849 |
| NET INCREASE (DECREASE) IN FUND BALANCE | $ (236,884) | $ 661,425 | $ (29,269) | $ 271,528 | $ 666,800 | $ (108,258) |



See Summary of Significant Accounting Policies and Notes to Financial Statements.

THE UNIVERSITY OF MONTANA

NOTES TO FINANCIAL STATEMENTS

June 30, 1991

## 1. Summary of Significant Accounting Policies

The University of Montana (the University) follows the standards of accounting and reporting as described by the College and University Business Administration. The University's financial statements are included as a component part of the State of Montana Financial Statements which are prepared annually and presented in the Montana Comprehensive Annual Financial Report. The financial statements exclude activity for Western Montana College of The University of Montana. The significant accounting policies followed by the University are described as follows:

### BASIS OF ACCOUNTING

Other than not providing for depreciation expense, the accompanying financial statements have been prepared using the accrual basis of accounting. The statement of current funds revenues, expenditures and other changes is a statement of financial activities of the current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses. The 1989 and 1990 memorandum totals on the statements are to provide a basis of comparison only.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal additions; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and property renewal and replacement; and (3) other transfers, for all other cases.

### FUND ACCOUNTING

The accounts are maintained in accordance with the principles of fund accounting. These principles require that resources be classified for accounting and reporting purposes into fund groups according to the activities or objectives specified for the resources. Accounts are separately maintained for each fund. In the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Descriptions of these fund groups are as follows:

Current funds - Current funds are used primarily to account for transactions made in performing the primary and support objectives of the University: instruction, research, public service, academic support, student services, institutional support, operation and maintenance of plant, scholarships and fellowships and auxiliary activities. Funds included in this classification consist of:

A. General operating funds - These funds are used to account for transactions relating to the educational and general operations of the University. The fund balance includes the unfunded liability of $4,018,984 for compensated absences payable.

B. Designated funds - These funds are used to account for educational-related and chargeback activities which are essentially self-supporting. Resources in this fund group have been designated for specific purposes by the University.

C. Auxiliary enterprises funds - These funds are used to account for transactions of substantially self-supporting activities that primarily provide services for students, faculty and staff. Auxiliary enterprises include, but are not limited to student housing and food services.

D. Restricted funds - These funds are used to account for current funds expended for operating purposes but restricted by donors or other outside agencies as to how they may be spent. Revenues of the restricted funds are reported in the statement of current funds revenues, expenditures and other changes only to the extent expended for current operating purposes. The excess of receipts over or under expenditures is included as an addition or deduction to fund balances during the year.

Student loan funds - These funds are available to students to aid in financing their education and are provided by federal, private and University sources. The majority of the funds are provided by the federal government.

Endowment and similar funds - These funds have specific donor or other outside agency restrictions prohibiting the expenditure of the principal. Generally, the principal is to be maintained in perpetuity and invested to produce income. The income may or may not be restricted as to use, at the donor's instruction.

Plant funds - These funds are used to account for the transactions relating to investment in University properties. Plant funds include:

A. Unexpended plant fund - comprised of amounts which have been appropriated or designated for land, improvements, buildings and equipment.

B. Renewal and replacement fund - comprised of amounts provided for renewal and replacement of properties.

C. Retirement of indebtedness fund - accumulates resources for interest and principal payments and other debt service charges relating to plant fund indebtedness.

D. Net investment in plant fund - represents the total of property, buildings, equipment and related liabilities.

Agency funds - These funds are used to account for assets held by the University as custodian or fiscal agent for others. Consequently, the transactions of this fund do not affect the statement of changes in fund balances.

## 2. Changes in Reporting

Effective in fiscal year 1990, the equipment capitalization level was increased from $200 to $1,000 with the exception of equipment purchased with federal funds. Net investment in plant was adjusted by $4,735,699 to reflect this change in policy.

In fiscal year 1990, a complete inventory of Campus Stores was taken with appropriate adjustments made to the inventory system to properly reflect the value of the inventory. This process resulted in a $234,435 reduction which is reflected in the accompanying financial statements.

Effective in fiscal year 1991, the University adopted the direct write-off method for recording uncollectable student receivable accounts. Student debt was written-off within 3 months after becoming delinquent and placed with a professional collection agency. The difference between the expected collections from old debt and anticipated losses from current student debt was immaterial at year-end. Therefore, the University did not record an allowance for student debt.

The University implemented a purchased software package (BANNER) for student records during summer quarter 1990. Student accounts receivable is now recorded in the general operating fund and use of a pooled accounts receivable system has been discontinued. The accounts receivable balance relating to the Banner System was $282,767 on June 30, 1991.

The University of Montana has identified cash equivalents for all funds on the June 30, 1991 Balance Sheet. Cash equivalents are defined as cash invested in the State of Montana Short Term Investment Pool and short-term, highly liquid investments with an original maturity of 3 months or less.

## 3. Assets

Investments - Investments are carried at cost (or, in the case of gifts, fair market value at date of receipt). Cash equivalents are defined as cash invested in the State of Montana Short Term Investment Pool and short-term, highly liquid investments with an original maturity of 3 months or less. Investment balances at June 30, 1991 consist of the following:

| | Investments Held by the State of Montana Board of Investments | Investments Held By Trustees |
|---|---|---|
| Cash Equivalents | $8,350,100 | $ 315,412 |
| Stocks and Bonds | 369,281 | |
| U.S. Government Securities | | 2,458,990 |
| Certificate of Deposit | | 12,500 |
| U.M. Foundation Investment Pool | | 103,877 |
| | $8,719,381 | $2,890,779 |

All the securities are risk category 1. They include insured/registered securities or unregistered securities held by the State of Montana Board of Investments, or trustees, in the University's name. The market value of cash equivalents and investments held by the State of Montana Board of Investments was $9,113,502 at June 30, 1991. The market value of cash equivalents and investments held by trustees was $2,950,184. Of the total securities shown above, $2,571,358 is restricted by donors or outside granting agencies; $2,495,287 has been designated as bond fund reserves.

Inventories - Inventories consist mainly of food and operating supplies, and are valued at cost (first-in, first-out method).

Loans Receivable - Loans receivable from students bear interest at rates primarily ranging from 0 to 12 percent and are generally repayable in installments to the University over a 30-day to ten-year period beginning zero to twelve months from the date of separation from the University (depending on loan type).

Plant Assets - Plant assets are stated at cost when purchased or constructed or, if acquired by gift, at the estimated fair market value at date of gift. In accordance with the practice generally followed by colleges and universities, no provision for depreciation has been recorded in the accounts. Intangible assets consist entirely of computer software which are amortized on a straight-line method over a five-year period. The value reported is net of accumulated amortization. Property, plant/equipment and other assets at June 30, 1991, consisted of the following:

| | |
|---|---|
| Intangible Assets | $ 360,992 |
| Buildings and Improvements | 80,020,644 |
| Furniture and Equipment | 18,084,737 |
| Library Books and Materials | 22,512,446 |
| Land/Land Improvements | 5,926,617 |
| Construction Advances | 2,228 |
| Construction-in-Progress | 1,842,008 |
| Museum and Art Collection | 4,504,316 |
| Livestock | 106,000 |
| Total | $133,359,988 |

In the year 1881, the University became the beneficiary of a 46,709 acre land grant. Under provisions of the grant, proceeds from the sale of land and land assets must be reinvested and constitute, along with the balance of unsold land, a perpetual trust fund. The grant is administered as a trust by the State Land Board which holds title and has the authority to direct, control, lease, exchange and sell these lands. The University as a beneficiary does not have title to the assets resulting from the grant, only a right to the earnings generated. The earnings of the trust, which totaled $178,692 in fiscal year ended June 30, 1991, are reported as plant fund revenue.

On June 6, 1990, under the Authority of the Board of Regents, title to property at Fort Missoula was transferred to the UM Foundation for academic scholarship purposes. This had the effect of decreasing land and buildings by $171,875 and $263,768, respectively.

On July 19, 1990 the University became the beneficiary of a 3,414 acre working ranch, located near the Lubrecht Experimental Forest Station, from the estate of Edward Bandy Jr. This had the effect of increasing land, buildings, equipment and livestock by $592,513, $81,120, $144,200 and $154,880 respectively.

## 4. Liabilities

Capital Leases - The University is obligated under equipment capital leases expiring in various years through 1996. The assets and liabilities are recorded at the total amount of principal payments scheduled under the lease contract. In fiscal year 1991, the University entered into lease agreements for computer hardware and software totaling $1,233,479. Property held under capital leases for fiscal years ending June 30, 1990 and June 30, 1991 totalled $126,039 and $1,523,673 respectively.

Minimum future lease payments under capital leases for the next five years are $294,448 in fiscal year 1992, $345,065 fiscal year 1993, $369,918 in fiscal year 1994, $547,377 in fiscal year 1995 and $450,509 for fiscal year 1996. Interest over the three fiscal years 1992 through 1994 is $360,628. The outstanding principal on the lease payments is $1,561,716. Interest is stated in the contracts or based on the lessor's implicit rate of return. The University does not sublease its equipment under capital lease agreements.

Mortgages - Two residential properties were purchased in 1986 by the University as part of its long-range planning program. Annual principal payments on these properties, which mature in 2011, follow:

| 1992 | 1993 | 1994 | 1995 | 1996+ |
|---|---|---|---|---|
| $1,950 | $2,120 | $2,305 | $2,507 | $87,797 |

Bonds Payable -

A. On July 24, 1987 the Montana University System Board of Regents authorized the issuance of The University of Montana Facilities Improvement and Refunding Revenue Bonds Series A 1987 in the amount of $10,560,000, Stadium Improvement Revenue Bonds Series B 1987 in the amount of $130,000, and Special Purpose Facilities Refunding Revenue Bonds Series C 1987 (a taxable issue) in the amount of $3,945,000.

Existing debt service reserves on the 1985 A Series, along with proceeds from the Series A and C 1987 issue, provided the funds necessary to refund some of the Series 1985 A Special Purpose Revenue Bond issue, the Series C 1987 entirely, and provided $2,000,000 to renovate existing University facilities.

B. Under a supplement Master Indenture of Trust, dated June 1, 1988 between the Montana University System Board of Regents and the First Trust Company as Trustee, $4,110,000 of bonds were issued. The University's portion of the proceeds, with other available funds, were escrowed to provide the resources to pay $3,990,000 of the 1985 Bond Series maturing on and after December 15, 1990. The scheduled cross-over refunding occurred, and the University's total portion of the 1985 Bond Series (Montana University System Board of Regents Special Purpose Revenue Bonds) was refunded.

Revenue Bonds Payable - As of June 30, 1991 annual principal payments are as follows:

| Fiscal Year | CHE Series A 1988 | 1985/87 Series A | 1985/87 Series B | Total Annual Payments |
|---|---|---|---|---|
| 1992 | $ 539,607 | $ 940,000 | $ 160,000 | $ 1,639,607 |
| 1993 | 1,121,655 | 1,065,000 | 160,000 | 2,346,655 |
| 1994 | | 889,277 | 143,545 | 1,032,822 |
| 1995 | | 572,134 | 105,300 | 677,434 |
| 1996-2007 | | 10,620,526 | 149,713 | 10,770,239 |
| | $1,661,262 | $14,086,937 | $ 718,558 | $16,466,757 |

Sick and Annual Leave - Eligible University employees earn 8 hours sick and 10 hours annual leave for each month worked. The accrual rate for annual leave increases with longevity. Eligible employees may accumulate annual leave up to twice their annual accrual. Sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971 and 100 percent of annual leave vests to each employee as earned and, if not used during employment, is paid upon termination. Sick and annual leave expense in the operating statements reflect the costs of leave actually taken or paid at termination during the period, plus the increase of $522,594 in total liability between June 30, 1990 and June 30, 1991, which approximates the annual leave accrual.

## 5. Encumbrances

The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such expenditures. Accordingly, approximately $302,975 of outstanding purchase orders and purchase commitments are not reported in the accompanying financial statements.

## 6. Federal Aid Fees

The University assesses a fee to cover administrative costs of the Perkins/National Direct Student Loan Fund (NDSL) and federal student aid programs. Federal regulations permit the entire fee to be charged to a single program or distributed equally, or unequally, to the various programs at the University's option. Administrative costs charged to federal financial aid programs in fiscal years ending June 30, 1990 and June 30, 1991 were $107,598 and $130,627 respectively. The individual costs for each of the years are as follows:

| | 1989-90 | 1990-91 |
|---|---|---|
| Pell | $ 14,685 | $ 12,765 |
| Perkins/NDSL | | 56,168 |
| SEOG | | |
| CWS | 92,913 | 61,694 |
| | $107,598 | $130,627 |

## 7. Retirement Plans

Full-time employees of The University of Montana are all members of the Public Employees' Retirement System (PERS), Teachers' Retirement System (TRS), or the Optional Retirement Program (ORP). ORP started in January of 1988, is underwritten by the Teachers' Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF). Only faculty and staff with contracts under the authority of the Board of Regents may elect either the TRS or the ORP. Pension Benefit Obligation is not available on an agency basis, but is available on a statewide basis from the Montana Retirement Systems or TIAA-CREF.

ORP - The ORP is a defined contribution plan. The benefits at retirement depend upon the amount of contributions, amounts of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. The University of Montana records employee/employer contributions, and remits monies to the Commissioner of Higher Education. The Commissioner's Office then transfers the contributions to TIAA-CREF. Individuals are immediately vested with contributions.

TRS - This mandatory system established in 1937 and governed by Title 19, Chapter 4, MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the University System. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for accrual benefits is 1/60 times creditable service times the average final compensation. Rights are vested after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

PERS - This mandatory system established in 1945 and governed by Title 19, Chapter 3, MCA, provides retirement services to substantially all public employees. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Beginning January 1, 1989, monthly retirement benefits are determined by taking 1/56 times the number of years of service times the final average salary. Members rights become vested after 5 years of service.

Information as of June 30, 1991

| | PERS | TRS | ORP (TIAA-CREF) |
|---|---|---|---|
| Covered Payroll | $14,221,511 | $16,075,482 | $ 3,762,598 |
| Total Payroll | 42,474,818 | 42,474,818 | 42,474,818 |
| Employer Contributions | 912,605 | 1,199,071 | 111,222 |
| Percent of Covered Payroll | 6.417 | 7.459 | 2.956* |
| Employee Contributions | 895,945 | 1,132,354 | 265,037 |
| Percent of Covered Payroll | 6.300 | 7.044 | 7.044 |

*For ORP participants, a total of $169,430 or 4.503% was contributed to TRS from employer contributions to amortize past service unfunded liability in accordance with Title 19, Chapter 21, MCA.

## 8. Contingencies

At present there are legal cases in conciliation, negotiation and pending and/or potential litigation. Due to the nature of these cases, the actual amount of liability, if any, is difficult to estimate at this point.

Funds provided to the University and accounted for in the Current Restricted funds and Student Loan funds are subject to review and audit by cognizant granting agencies. The University does not expect any material adjustments or repayments to result from such audits.

## 9. Subsequent Events

Subsequent to June 30, 1991, The University of Montana has agreed to acquire computer equipment and software valued at $1,557,707.

## 10. Reclassifications

Certain reclassifications have been made to the 1990 Financial Statements to conform to the 1991 presentation. None of these reclassifications affect fund balances.

# University System Responses

The University of
**Montana**

Office of the President
The University of Montana
Missoula, Montana 59812-1291
(406) 243-2311, FAX (406) 243-2797

23 April 1992

APR 28

Mr. Scott A. Seacat
Legislative Auditor
State of Montana
Office of the Legislative Auditor
State Capital
Helena, MT 59620

Dear Mr. Seacat:

Enclosed you will find The University of Montana's response to the recommendations of the Financial-Compliance Audit for the two Fiscal Years ended June 30, 1991.

Thank you for your attention to these matters.

Sincerely,

George M. Dennison

George M. Dennison
President

Enclosure

c: K. Burgmeier, Director, Internal Audit
J. Hutchinson, Commissioner of Higher Education
R. Keller, Controller
J. Todd, Vice President for Administration and Finance



An Equal Opportunity University

# THE UNIVERSITY OF MONTANA

RESPONSE TO REPORT BY
THE OFFICE OF THE LEGISLATIVE AUDITOR

RECOMMENDATION #1

WE RECOMMEND THE UNIVERSITY ESTABLISH PROCEDURES TO CHARGE LEAVE BENEFITS TO GRANT PROJECTS IN ACCORDANCE WITH FEDERAL REGULATIONS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. We are reviewing our current procedures and will make the necessary changes to ensure appropriate leave benefits expenditures. This will be done in coordination with other Montana University System units to maintain consistency. We anticipate these procedures will be implemented by 7/1/93.

RECOMMENDATION #2

WE RECOMMEND THE UNIVERSITY:

A. IDENTIFY EQUIPMENT PURCHASED AS MATCH FOR A FEDERAL GRANT ON THE PROPERTY RECORDS IN ACCORDANCE WITH FEDERAL REGULATIONS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. Procedures will be implemented to identify and report equipment purchased as match on federal grants as federal equipment. The new procedures will be implemented 7/1/92.

B. EXCLUDE EQUIPMENT COSTS USED AS MATCH FROM ITS INDIRECT COST RATE CALCULATION.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. Once the above mentioned procedures are implemented, equipment used as match will be excluded when developing our indirect cost proposal. Matching equipment will be excluded when we submit our next indirect cost proposal on 12/31/92.

RECOMMENDATION #3

WE RECOMMEND THE UNIVERSITY SEPARATELY IDENTIFY OPERATING AND EQUIPMENT EXPENDITURES USED TO MATCH FEDERAL GRANTS ON THE ACCOUNTING RECORDS IN ACCORDANCE WITH FEDERAL REGULATIONS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. Procedures will be implemented to identify separately and clearly the operating and equipment expenditures used as match. These procedures will be implemented 7/1/92.

RECOMMENDATION #4

WE RECOMMEND THE UNIVERSITY CONTINUE ITS EFFORTS TO ENSURE GRANTOR AGENCIES ARE BILLED AND GRANT REPORTS ARE SUBMITTED ON A TIMELY BASIS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. Major improvements have been made in this area during the last three years. We will continue our efforts to ensure timely billing and reporting. Once we have completed our transition to the automated grant billing system and implemented the computerized tickler system, we will further improve our ability to report and bill in a timely manner. We should be utilizing our new system by 7/1/93.

RECOMMENDATION #5

WE RECOMMEND THE UNIVERSITY ESTABLISH PROCEDURES TO ENSURE THE STUDENT STATUS CONFIRMATION REPORTS ARE SUBMITTED TO THE CENTRAL PROCESSING CENTER ON A TIMELY BASIS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. When the new financial aid system was implemented, control features for student confirmation reporting were not functioning properly. The software has been corrected and on 3/6/92 we implemented procedures to ensure confirmation reports are submitted in a timely manner.

RECOMMENDATION #6

WE RECOMMEND THE UNIVERSITY PROPERLY CLASSIFY ITS FINANCIAL ACTIVITY ON THE STATES ACCOUNTING RECORDS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. We will continue our efforts to ensure our financial activity is properly classified on the State Budget and Accounting System

(SBAS). Procedures will be implemented by 6/30/92 to classify properly the activities noted in the audit report. Whereas we aspire to comply with the recommendation, we also believe it appropriate to adjust the financial statements for material misclassifications discovered after the close of SBAS.

RECOMMENDATION #7

WE RECOMMEND THE UNIVERSITY ACCOUNT FOR DONATIONS AND GIFTS MADE TO THE UNIVERSITY ON THE UNIVERSITY'S ACCOUNTING RECORDS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THIS RECOMMENDATION. Procedures will be established by 6/15/92 to ensure all University assets are accounted for properly.

RECOMMENDATION #8

WE RECOMMEND THE UNIVERSITY ESTABLISH PROCEDURES TO ENSURE COMPLIANCE WITH THE OPERATING BUDGET RESTRICTIONS CONTAINED IN THE APPROPRIATION LAWS.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. We have operated under procedures and guidance as approved by the Board of Regents and the Commissioner of Higher Education. Existing procedures were modified 9/3/91 to ensure compliance with all applicable budgetary restrictions.

RECOMMENDATION #9

WE RECOMMEND THE UNIVERSITY ESTABLISH PROCEDURES TO ENSURE PAYROLL SYSTEM CHANGES ARE COMPLETE.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. Procedures requiring written confirmation on all payroll system changes signed by both the Payroll Supervisor and Programmer are in place. We modified procedures on 5/15/91 to include an additional review of this confirmation. Personnel changes were made on 7/1/91 to ensure payroll system changes are correct and complete.

RECOMMENDATION # 10

WE RECOMMEND THE UNIVERSITY ESTABLISH PROCEDURES TO ENSURE TERMINATION PAYMENTS ARE CALCULATED CORRECTLY.

RESPONSE:

THE UNIVERSITY CONCURS WITH THE RECOMMENDATION. On 7/1/91 we implemented additional procedures which now require supervisory review and re-calculation of all termination payments.

THE MONTANA UNIVERSITY SYSTEM
33 SOUTH LAST CHANCE GULCH
HELENA, MONTANA 59620-3104
(406) 444-6570

COMMISSIONER OF HIGHER EDUCATION

April 15, 1992

Mr. Scott Seacat
Legislative Auditor
State Capitol
Helena, MT. 59620

Dear Mr. Seacat:

Enclosed are the University System responses to the financial-compliance audit report of the University of Montana for the two years ended June 30, 1991. Thank you for the opportunity to respond.

Sincerely,

Laurie O. Neils

Laurie O. Neils
Director of Budget and Accounting

c: John Hutchinson

RECOMMENDATION #8

We recommend the university establish procedures to ensure compliance with the operating budget restrictions contained in the appropriation laws.

UNIVERSITY SYSTEM RESPONSE:

Concur.

The University System has diligently monitored personal services expenditures and budgets to determine compliance with legislative restrictions. However, improvement is needed in order to comply with the five percent restriction. Effective fiscal year 1992, the Office of the Commissioner of Higher Education requires all campuses to complete the operating budget portion of their budget adjustment forms prior to approval. Additionally, the Office of the Commissioner of Higher Education will send a memo to the units of the University System prior to fiscal year-end reminding the campuses of the five percent restriction.

However, the University System respectfully suggests that the Legislature reconsider the benefit of the five percent restriction. The five percent restriction states:

> Expenditures by a state agency must be made in substantial compliance with an operating budget approved by an approving authority...Substantial compliance means that no category in the approved operating budget may be exceeded by more than 5 percent....

The Dictionary For Accountants defines budget as "any financial plan serving as an estimate of and a control over future operations". A budget, then, should be a forecasting tool which is subsequently compared with reality. The budget of state agencies at fiscal year-end usually does not reflect the original budget, but rather the end-of-year expenditures. If budgets remained as approved by an approving authority, then fiscal year-end final expenditures would be measured against this budget to determine the accuracy and effectiveness of the original budget. A "budget" which is constantly changed loses its meaning.

The issue of cost versus benefit is also relevant to the five percent restriction. The Legislature already closely monitors personal service expenditures. The five percent restriction places additional monitoring, documentation, and adjustment requirements on management. After all is said and done and all adjustments have been made in compliance with the restriction, what has been gained? The agency and legislature have lost any meaningful comparison between expenditures and legislative intent for the expenditures of that budget.